Performance Incentive Program

DM-126-G

November 10, 1993

TO ALL DIVISION MANAGERS:

Subject: Performance Incentive Program

The Performance Incentive Program will replace the Winners Program for all direct buying customers effective January 1, 1994.

- Presentations
  - All program presentations should be made by December 31, 1993.
  - Where appropriate, you may choose to reference the "Update" newsletter that will be mailed to all direct buying customers on November 12, 1993, using the RJR commentary section to position our 1994 program.

The following is an outline of the information contained in this document:

- Program Summary/Key Points (Attachment)
  - Provides a top-line summary with key points.

- Program Presentation Material (Supplement)

  Program Performance Requirements/Payment - Provides specific program information, regarding requirements and qualifications for payment.

  Rules and Procedures - A comprehensive listing of the rules and procedures all direct buying customers must follow in order to participate in the Performance Incentive Program.

  Program Performance Requirements Review Form - This should be completed for each account near the end of each program period as a program performance review. The appropriate copies should be left with each account and retained in your files.

  The above materials are Division Master Forms to be used for all account presentations with a copy left behind with each account.

Note: No other presentation materials will be made available for this program.

- SIS Reporting

  You and your Regional Manager will continue to be responsible for the determination if an account performs against the specific Program Performance Requirements and will indicate as such. A DM letter will continue to be sent prior to the end of each program period requesting an update of each accounts status.

If you have any questions, please contact Fred Baumann at extension 7149.

R. J. REYNOLDS TOBACCO COMPANY

Attachment

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PERFORMANCE INCENTIVE PROGRAM
PROGRAM SUMMARY/KEY POINTS

Background

The Performance Incentive Program is structured to have a universal set of Program Performance Requirements with two program payment options (per 12M case), evaluated and paid on a quarterly basis.

Program Performance Structure

- Program Requirements
  - Specific performance related criteria that all direct buying customers must follow in order to be eligible for a per case payment amount.
- Payment
  - Account must meet all Program Performance Requirements before either of the following payments is eligible:

    $2.00 per 12M case

    -- Must participate in RJR's EFT Program at a minimum participation rate of 75% based on dollar amount of purchases for the period.

    -- OR --

    $1.00 per 12M Case

    -- Must maintain average payment at 10 days or less based on dollar amount of purchases for the period.

Key Points

- RJR's Performance Incentive Program maintains a simplistic approach.
- RJR's Performance Incentive Program remains a quarterly pay-out potential.
- All direct buying customers now follow the same requirements and qualifications.
- After the Program Performance Requirements are met, RJR's payment is based on the account's payment of RJR invoices. (75% EFT = $2.00/cs, 10 days = $1.00/cs, over 10 days = $0.00/cs)
- RJR's EFT program remains separate, with the same 0.5% off net invoice amount.
- If account's EFT average participation is less than 75%, account will not be paid $2.00 per case.
- If account's payment average exceeds 10 days, based on purchases for the period, there will be no payment for that period.

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Program Payment Evaluation

- You and your Regional manager will determine if each direct buying customer has fully met all Program Performance Requirements and is eligible for payment.

- Based upon your indication that all Program Performance Requirements were met, at the completion of each three month period, the RJR Credit Department will determine the per case payment qualification rate for each direct buying customer ($2.00/cs, $1.00/cs, or $0.00/cs).

Program Payment Situation Examples:

Situation	Payment Qualification 12M Case
• Account qualifies for EFT participation (at least 75%) - and - Field Sales approval of account's Program Performance Requirements	$2.00
• Account pays RJR invoices within a 10 day average - and - Field Sales approval of account's Program Performance Requirements	$1.00
• Account pays RJR invoices in a longer than 10 day average - and - Field Sales approval of account's Program Performance Requirements	$0.00
• Account qualifies for EFT participation (at least 75%) - and - Field Sales disqualifies account for non-compliance of Program Performance Requirements	$0.00

Key Points

- You will still make the final determination if any direct buying customer within your responsibility is to be eligible for program payment.

IMPORTANT

- If a direct buying customer is not adhering to any of the Program Requirements the account must be notified in writing and given sufficient opportunity to correct the problem during the current program period. It is necessary to provide the account a written warning identifying unsatisfactory performance of program requirements that, if not corrected, will result in payment disqualification for that period.

- Consistency of application is very important in that if a particular activity disqualifies one account it should disqualify all accounts.

- If you believe an account is not adhering to the fair and equitable treatment requirements of the program, or is setting profit margin practices on any of our products that are depriving us of equal opportunity to compete with other manufacturer's cigarettes, you should contact Fred Baumann at extension 7149 to discuss the issues. Do not dictate the resale prices of our products under any circumstances.

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PERFORMANCE INCENTIVE PROGRAM

PROGRAM PERFORMANCE REQUIREMENTS

- Do not make unauthorized invoice deductions.
- Maintain warehouse inventory of all RJR cigarette brand styles representing .25 market share and above.
- Accept all new RJR brand style(s) during the introductory period and have warehouse inventory available for sale to retail stores/consumers for six months from original purchase date.
- Pick-up and return damaged and/or out-of-date RJR product from retail accounts you service when identified by an RJR representative.
- Provide RJR a fair opportunity to meet competitive programs offered by other cigarette manufacturers to you and your customers including any requested Distributor Assist Programs.
- Provide RJR products an opportunity for distribution to your customers that is equivalent to the opportunity provided to competing products.
- Promote and encourage the sale and distribution of RJR products at least to the same extent you promote competing products.
- Provide a percentage of space on carton and package fixtures at least equal to RJR's share-of-market. (Required of direct customers who own and operate retail outlets)

- Vending Machine Operators, in addition to the above, must also:

  - Participate in an RJR annual vending placement payment contract and must accept all pack promotions as requested by your RJR representative.
  - Report quarterly vending placements via Tru-Check only.
  - Brands in vending machine must be approved by local RJR representative, and all non-paid vending point-of-sale must be RJR.

PAYMENT

- Meet all Program Performance Requirements
  and must
- Participate in RJR's Electronic Funds Transfer Program (EFT) at a minimum rate of 75% based on dollar amount of purchases for the evaluation period will qualify for a **$2.00** per 12M* case payment.

OR

- Meet all Program Performance Requirements
  and must
- Maintain average pay days at 10 days or less, based on dollar amount of purchase for the evaluation period will qualify for a **$1.00** per 12M* case payment..

EVALUATION AND ELIGIBILITY

- Your RJR sales representative will determine if you satisfy the Program Performance Requirements to be eligible for payment.
- Your average payment terms of RJR invoices during each quarterly period will determine your rate of payment.

Note: In order to earn either $2.00 or $1.00 per 12M* case, both satisfactory financial participation is required and applicable Program Performance Requirements must be met.

PAYMENT PROCEDURE

- Payment will be based on the payment qualification rate times the total number of cases purchased and paid for during each program period.
- Payment will be made by check or credited to your bank account via E.F.T. as soon as practicable after each three month program period.

* Per 12M shipping case
6M cases paid at 50% rate.

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RULES AND PROCEDURES

- All direct buying customers of R. J. Reynolds Tobacco Company may participate in the Performance Incentive Program.
- All direct buying customers will be reviewed on a quarterly basis for compliance with the Program Performance Requirements by an R. J. Reynolds Tobacco Company sales and credit representative. The evaluation and cigarette purchase calculation will be for each quarterly period.
- Allowances will be paid under the Performance Incentive Program to owners of record at the end of each program period. Payment will be made by check or credited to your bank account via E.F.T. as soon as practicable after each three month program period. In instances of ownership changes of all or part of a business, R. J. Reynolds Tobacco Company will pay monies only to the owners of record at the end of each program period.
- All allowances paid under the Performance Incentive Program will be calculated based on your invoiced purchases of all R. J. Reynolds Tobacco Company, Forsyth Tobacco Products, and RJR Macdonald cigarettes (per thousand cigarettes' payment rate). Extended dating purchases will be included in case purchase calculation, but excluded from the determination of average pay days. The gratis portion of BSGSF or 100% gratis units are excluded from the program.
- Any program requirements that are not met during any program payment period, will eliminate the ship-to location from participation for such payment period.
- The current Electronic Funds Transfer (EFT) Program will remain as a separate program with separate requirements and benefits.
- At the end of each Performance Incentive Program period, allowances will be paid to customer after a pro rata portion of bad debts, collection expenses and credit administration costs have been deducted.
- The Share-of-Market data used in the program will be MSA for the applicable trading area or retail customer's actual share-of-market when determining appropriate merchandising space.
- All issues regarding qualifications, and achievement, or any other matters related to the Performance Incentive Program will be resolved by R. J. Reynolds Tobacco Company in its sole discretion. The decision of R. J. Reynolds Tobacco Company on such matters will be final.
- Any unauthorized deductions, or untimely payments of all RJR invoices, will eliminate a customer's participation in the program. No customer is permitted to deduct any part of its allowances or anticipated allowances off invoice under the Performance Incentive Program.
- No direct buying customer is eligible to receive or earn any payment under the Performance Incentive Program if it or an affiliated company has past-due invoices from R. J. Reynolds Tobacco Company or Forsyth Tobacco Products at the end of a program period.
- R. J. Reynolds Tobacco Company reserves the right to retain allowances due under the Performance Incentive Program as an offset for any outstanding invoices from R. J. Reynolds Tobacco Company or Forsyth Tobacco Products. R. J. Reynolds Tobacco Company also reserves the right to alter the Performance Incentive Program terms, conditions and allowances, and/or discontinue the program at any time.

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PERFORMANCE INCENTIVE PROGRAM

PROGRAM PERFORMANCE REQUIREMENTS REVIEW FORM

Program Period: Quarter _____ Year _____

Customer Name: _____

Account Number: _____

Program Performance Requirements

- Did customer satisfy all Program Performance Requirements?
  Check: Yes ____ No ____
- List requirement area(s) not achieved

  _____

  _____

  _____

R. J. Reynolds Tobacco Company

Signature _____ Title _____

Evaluation Date _____ Division _____

Participant

Signature _____ Title _____

Evaluation Date _____

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